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Congress of the United States

House of Representatives

COMMITTEE ON ENERGY AND COMMERCE
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April 11, 2014

Mr. Peter Liguori
President and Chief Executive Officer
Tribune Company
435 North Michigan Avenue
Chicago, IL 60611

Dear Mr. Liguori:

I have written to you several times to raise concerns about the Tribune Company's intention to spin off its newspaper unit, which includes the *Los Angeles Times.* My staff has met with your staff, you have provided us with documents regarding the terms of the spinoff, and you and I met in January to discuss my concerns.

I appreciate your cooperation and your efforts to keep me informed about the transaction. I am writing again today to share the views of several experts on the transaction and its potential implications for the *Los Angeles Times* and other papers.

After we met, I asked a group of independent media and business experts to review the proposed spinoff to determine if it was in the best interests of the *Los Angeles Times* and the other Tribune papers and the communities that depend on them. The six experts I consulted are Bill Grueskin, Dean of Academic Affairs at the Columbia University School of Journalism; Gabriel Kahn, Professor at the USC Annenberg School for Communications and Journalism; Vin Crosbie, Professor at the Syracuse University S.I. Newhouse School of Public Communications; Robert G. Picard, Professor and Director of Research at the Reuters Institute, University of Oxford; and Rick Edmonds of the Poynter Institute. They all have distinguished academic and professional backgrounds.

In general, these experts raised serious concerns about the future of the *Los Angeles Times* under the terms of the spinoff. Professor Bill Grueskin of the Columbia School of Journalism wrote that "the terms of the spinoff should be of real concern."[1] Professor Gabriel Kahn of the USC Annenberg School stated that "it is indeed appropriate to be concerned about the medium- and long-term financial health of the emerging publishing company and in

[1] Letter from Professor Bill Grueskin to Rep. Henry A. Waxman (Mar. 10, 2014).

particular its ability to continue to provide a robust editorial voice in the communities it serves."[2] And Professor Vin Crosbie of Syracuse University indicated that "the planned spinoff threatens the future viability of the Tribune Company's newspapers, some of the most important dailies in America."[3]

The experts I consulted raised three primary concerns: the debt burden on the new newspaper entity; the distribution of real estate and other assets between the new newspaper entity and the Tribune Company; and the impacts of the spinoff on the ability of the *Los Angeles Times* and other Tribune Company newspapers to provide strong and independent local coverage.

When we met, you said you share my interest in preserving the viability of the *Los Angeles Times* and other Tribune papers. I hope you will give careful consideration to the views of these experts and make appropriate adjustments to the terms and conditions of the coming spinoff. These vital newspapers should be given the opportunity to start their new life as a separate company with sufficient assets to grow and thrive.

The Debt Burden of the New Publishing Entity

Public filings by the Tribune Company have revealed the company intends to spin off the new publishing entity with a significant debt burden. While the size of this debt has not been confirmed, public reports indicate that it is expected to be approximately $325 million, to be repaid as a dividend to the Tribune Company.[4]

A number of the experts I consulted raised concerns about this debt burden. Professor Grueskin wrote:

> [T]he $325 million dividend that the Publishing unit is expected to pay with the spinoff …[is] more of a ransom than a dividend. I have yet to see an economic justification for the payment, and the size of the Publishing unit's business does not appear to be large enough, nor its core business robust enough, to rationalize a payment (or more likely, debt) of that magnitude. [5]

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[2] Letter from Professor Gabriel Kahn to Rep. Henry A. Waxman (Mar. 31, 2014).

[3] Letter from Professor Vin Crosbie to Rep. Henry A. Waxman (Apr. 8, 2014).

[4] *Tribune Corp. expects $325-million dividend from publishing spinoff*, Los Angeles Times (Feb. 18, 2014) (online at http://www.latimes.com/business/la-fi-tribune-dividend-20140219,0,2808906.story#axzz2uNgxppfs).

[5] Letter from Professor Bill Grueskin to Rep. Henry A. Waxman (Mar. 10, 2014).

Professor Kahn shared these concerns. He wrote, "More worrisome is the plans for Publishing to pay a $325 million dividend to Broadcasting that is to be financed by issuing new debt. I see no rationale for this other than to suck cash out of one unit in order to create better chances for survival and success in another." [6] He described how this could impact the ability of the publishing entity to innovate and compete:

> [T]he news business is changing rapidly … Investors are sniffing opportunity in news. In order to compete in this market, however, companies such as Tribune Co. will be required to dramatically increase their pace of innovation. … All of this highlights a key consideration in this Spinoff: The Publishing company will likely require a significant cash cushion in order to invest and compete in this evolving market. [7]

Distribution of Assets Between the Tribune Company and the Publishing Company

Public filings and information provided to the Committee also reveal that key assets of the newspapers – including the *Los Angeles Times* building and other real estate and businesses like Career Builder and Classified Ventures – will remain parts of the parent company or will be separated from the newspapers.[8]

The independent experts I consulted also raised concerns about the impact of this arrangement on the long-term viability of the *Los Angeles Times* and other Tribune newspapers.

Mr. Edmonds described the strategic relationship between CareerBuilder and Classified Ventures and the newspapers:

> Both were responses – very successful ones – to grab a position in the digital classified business, which has decimated once lucrative print classifieds. … besides appreciating in value through the years, they have offered an owners' discount to Tribune papers and those of other companies with an ownership share. … It would seem fairer to me to assign those proceeds [from the sale of Classified Ventures] and the continued ownership of Career Builder, in whole or in part, to the publishing spinoff. [9]

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[6] Letter from Professor Gabriel Kahn to Rep. Henry A. Waxman (Mar. 31, 2014).

[7] Letter from Professor Gabriel Kahn to Rep. Henry A. Waxman (Mar. 31, 2014).

[8] Securities and Exchange Commission, Tribune Publishing Company – Form 10 General Form for Registration of Securities Pursuant to Section 12(b) or 12(g) of the Securities Exchange Act of 1934 (Dec. 9, 2013).

[9] Letter from Rick Edmonds to Rep. Henry A. Waxman (Mar. 25, 2014).

Professor Kahn raised similar concerns about the real estate transactions:

> I see no reason or rationale for sending all real-estate assets to the Broadcasting other than to provide additional value and liquidity to the Broadcast spinoff at the expense of the Publishing unit. … [N]ewspapers' real estate (often in the form of historic downtown headquarters) can account for as much as half of their market valuation. Stripping them of these assets will have an adverse impact on their financial health and create new strains on their cash, as they will be forced to make lease payments to Broadcasting. [10]

Professor Kahn also described the impact of the debt burden and the real estate costs on the new publishing company's cash flow: "Publishing's main source of revenue, print advertising, will likely continue to decline. Consequently, this additional burden will likely account for a larger and larger hit to net income in successive years."[11]

Impact on Local News Coverage

The experts that I consulted also raised significant concerns about the impact of the spinoff on local coverage by the *Los Angeles Times* and other Tribune newspapers. The Tribune proposal calls for the eight Tribune-owned papers to consolidate key functions, reducing costs and cutting jobs. This raises concerns about the ability of the papers to continue putting resources into local coverage.

Professor Picard described the potential damage to *Times* readers:

> The planned reduction of editorial staff and expenditures will affect the size and capabilities of newsrooms. The editorial impact of the planned changes is expected to primarily be standardization and shared design among papers and centralization of content for digital uses. This will not in itself reduce the ability of papers to provide quality local and national reporting, but will ultimately homogenize digital content across the papers and reduce the localization of that content. ... It is likely that it will be forced to continue cutting operating costs — including editorial budgets —to obtain resources necessary to pursue sustainability. This will affect the newspapers' abilities to allocate editorial resources to produce quality local and national news.[12]

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[10] Letter from Professor Gabriel Kahn to Rep. Henry A. Waxman (Mar. 31, 2014).

[11] Letter from Professor Gabriel Kahn to Rep. Henry A. Waxman (Mar. 31, 2014).

[12] Letter from Professor Robert Picard to Rep. Henry A. Waxman (Mar. 26, 2014).

Conclusion

Independent newspaper experts that I have consulted share the same concerns that I have raised about the terms and conditions of the pending spinoff of the *Los Angeles Times* and other Tribune newspapers. These experts have indicated that the high debt burden, inequitable asset split, and newspaper consolidation plans that are part of the transaction will place the long-term viability of the *Los Angeles Times* and other Tribune papers at risk.

I ask that you take steps to address these concerns before the spinoff is complete. One important step to strengthen the *Los Angeles Times* would be to reduce the debt burden on the newspaper entity. It is unfair to make struggling newspapers take on hundreds of millions of dollars in debt to pay a cash dividend to the profitable TV broadcasters remaining in the parent company. One of Professor Grueskin's conclusions was that "if the Tribune's $325 million [debt] – or some significant portion of it – could be deployed toward investment rather than a payoff, it could help provide a more likely scenario for future success in the newspaper group."[13]

I believe you share my concern about ensuring the long-term viability of the *Los Angeles Times* and the other Tribune papers. I hope you will review the assessments the distinguished experts provided to me and then revise the terms of the transaction. When the newspapers become a separate company, they need the financial and other resources necessary to compete effectively in the Internet age.

Sincerely,

Henry A. Waxman

Henry A. Waxman
Ranking Member

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[13] Letter from Professor Bill Grueskin to Rep. Henry A. Waxman (Mar. 10, 2014).